Canadian Grain Commission | Commission canadienne des grains

Quarterly Financial Report:

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs (Unaudited)

For the Period ended September 30, 2012

Canada

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Canadian Grain Commission
Quarterly Financial Report
For the period ended September 30, 2012

1. Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates*. It has been prepared by Canadian Grain Commission (CGC) management as required by section 65.1 of the *Financial Administration Act* and is in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

The Canadian Grain Commission was established in 1912 and is the federal government agency responsible for administering the provisions of the *Canada Grain Act* (CGA).

The CGC's mandate as set out in the CGA is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets."

The CGC's vision is to be "A leader in delivering excellence and innovation in grain quality and quantity assurance, research, and producer protection." The CGC reports to Parliament through the Minister of Agriculture and Agri-Food.

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: **Canada's grain is safe, reliable and marketable and Canadian grain producers are protected**.

The CGC's Program Alignment Architecture has five programs that each contribute to making progress to the sole strategic outcome. The programs are:

- Quality Assurance Program,
- Quantity Assurance Program,
- Grain Quality Research Program,
- Producer Protection Program, and
- Internal Services.

Further details on the CGC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting (modified cash) and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Budgetary Authorities compares the Department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Authorities is consistent with that in the *Main Estimates* and *Supplementary Estimates*.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through *Appropriations Acts* or through legislation in the form of statutory spending for specific purposes.

The CGC uses the full accrual method of accounting to prepare and present its annual departmental financial statements included in the *Departmental Performance Reports.* However, the spending authorities voted by Parliament remain on an expenditure basis (modified cash) of accounting.

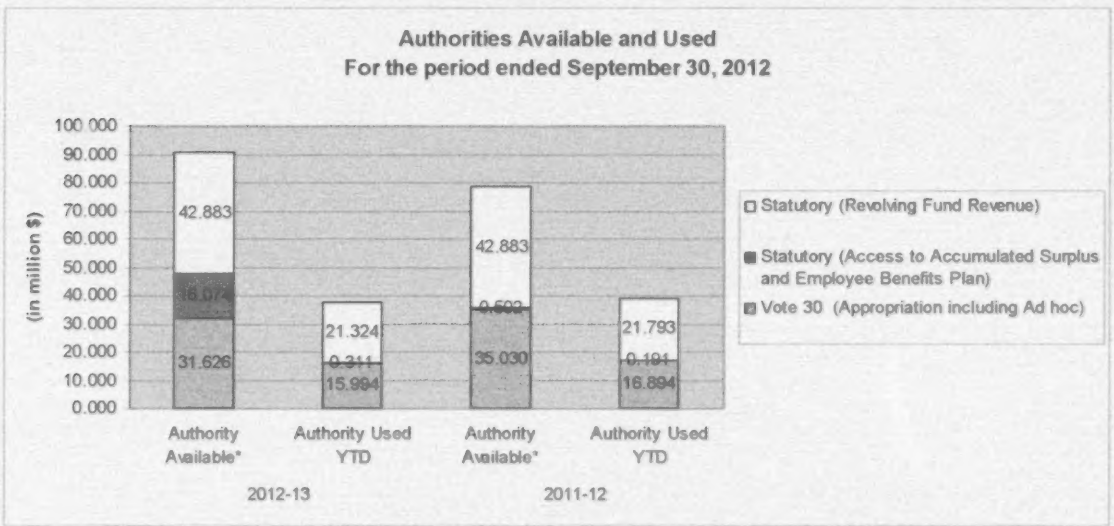
1.3 CGC Financial Structure

The CGC is funded by a combination of an ongoing appropriation, ad hoc appropriation and authority to re-spend fees collected. A revolving fund was set up for the CGC in 1995 with the expectation that the CGC would be largely self-funded through fees for service. However, the CGC's user fees have not increased since 1991, operating costs have continually increased, and annual grain volumes can fluctuate considerably from year to year. As a result, overall cost recovery has fallen from approximately 90 percent in the early 1990s to between 50 and 60 percent today. The CGC's falling cost recovery level has caused the CGC to rely on ad hoc government appropriation since 1999 to fund operations on an annual basis.

The CGC funding structure is based on budgetary authorities that are comprised of both statutory and voted (non-statutory) authorities. The statutory authorities include employee benefit plan authority for appropriation funded positions and the CGC revolving fund authority which allows the CGC to re-spend fees that it has collected. The voted authority is Vote 30 – Program Expenditures that includes annual appropriation authority and any ad hoc appropriation authority for the fiscal year.

2. Highlights of Fiscal Year to Date

This section highlights any significant items that affected the year-to-date results and/or contributed to the net change in resources available for the year and actual expenditures and should be read in conjunction with the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object* which can be found at the end of this report.



* Authority available based on amounts approved through the Estimates process. Amounts detailed in Statement of Authorities.

2.1 Authority Available Analysis

As reflected in the *Statement of Budgetary Authorities*, the department's total authority available for use (net of Revolving Fund revenue) in the fiscal year as at September 30, 2012 is $47.7 million, as compared to $35.5 million as at September 30, 2011. The increase of 34.2% ($12.168 million) can be attributed to the following changes in the CGC funding source elements:

1. Through Budget 2012, the CGC received a decrease of $3.4 million in its ad hoc appropriation authority for 2012-13. Budget 2012 identified ad hoc appropriation authority of $26.8 million for 2012-13. Budget 2010 identified ad hoc appropriation authority of $30.2 million for 2011-12.

2. The CGC received an increase of $15.5 million in its access to accumulated surplus for 2012-13 over the same period last year. Budget 2012 identified that the CGC should seek authority to access a portion of its accumulated surplus to support its operations in the amount of $15.5 million for 2012-13. The CGC was granted this authority effective April 1, 2012. Budget 2010 identified that the CGC should seek authority to access a portion of its accumulated surplus to

support its operations in the amounts of $8.5 million for 2011-12. The CGC was granted this authority in October, 2011.

No changes were made to CGC's authority within the second quarter.

Total available for use reflected in the *Departmental Budgetary Expenditures by Standard Object* differs from the revolving fund gross revenues as stated in both *Main Estimates* and the *Statement of Budgetary Authorities* due to the differences in budgetary authorities and planned spending. Planned spending forecasts re-spendable revenues of $37.626 million based on projected grain volumes of 50.6 million tonnes, while Main Estimates reflect the authority limit to re-spend revenue of $42.883 million in 2012-13.

2.2 Authority Used Analysis

As reflected in the *Departmental Budgetary Expenditures by Standard Object*, the department's total budgetary expenditures in the quarter ended September 30, 2012 is $9.523 million, as compared to $7.750 million as at the quarter ended September 30, 2011. The increase of 22.9% ($1.773 million) can be attributed to an increase in the use of appropriation funding due to a reduction in revenues received during the second quarter. The grain volumes handled by the CGC for billing and receipt of funds in the second quarter was reduced by 8.7% (2.2 million metric tonnes) as compared to the second quarter last year.

Total expenditures in the quarter ended September 30, 2012 are $18.242 million as compared to $20.179 million for the quarter ended September 30, 2011. The decrease of 9.6% ($1.937 million) in quarter 2 expenditures can be attributed mainly to a 13.4% ($2.289 million) reduction in personnel expenditures. Significant variances in personnel expenditures include a reduction of 41.6% ($0.952 million) in severance liquidation payments and a reduction of 17.9% ($0.410 million) overtime costs.

In 2012-13, total expenditures to date decreased by 3.2% ($1.248 million) as compared to the same period last fiscal year. This decrease is mostly attributed to the following significant variances:

1. Personnel expenditures to date decreased by 4.6% ($1.502 million) as compared to the same period last fiscal year as a result of reductions in severance liquidation payments and reduces use of overtime as identified in the second quarter; and

2. Rental expenditures increased by 27.7% ($0.553 million) as compared to the same period last year. 48.4% ($0.267 million) of this increase can be attributed to an increase in rental payments for office accommodations.

As reflected in both the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object*, overall expenditures are consistent between the quarters.

3. Risks and Uncertainties

The CGC receives funding through both voted appropriations and fees related to the handling of grain. Service fee revenue is largely based on grain volumes handled—a volume which fluctuates from year to year. Current ongoing authorities provide identified funding for approximately 50% of the resource requirement for the CGC. The absence of a stable funding formula creates risk for the organization in a number of ways.

There is the risk that lack of funding will negatively affect the ability to make decisions, and to fully deliver the mandate. This is not only felt through a potential shortage of qualified staff, but in the risk that the CGC's scientific technological capacity will not keep pace with the evolving needs of the grain industry. To address these risks the CGC must ensure that resources are targeted toward existing and emerging grain quality and safety issues, and that capital budget allocations are sufficient to acquire equipment necessary to address international standards. The revolving fund is utilized as effectively as possible, including planning for and accommodating a potential 20 percent swing in projected grain volumes during budgeting. The annual budget is also re-profiled through the year to deal with shifting needs and priorities that have arisen.

In recent years, the Government has twice introduced legislation, Bill C-13 and Bill C-39, to amend the CGA. Both attempts died on the order paper when parliamentary sessions ended. Industry and stakeholders have been consulted a number of times on the CGC's role as mandated under the CGA and the user fee structure currently in place. Stakeholders underscored the need to modernize the CGA to eliminate certain services that are no longer needed, stressing that these reforms must take place in tandem with, or before, user fee increases. As such, proposed amendments to the CGA were included in the *Jobs and Growth Act, 2012*, that was tabled on October 18, 2012. While the pace of the legislative and user fees processes are outside the control of the CGC, the CGC expects legislative and user fees changes to come into force August 1, 2013. The proposed amendments to the CGA would reduce the size of the CGC's workforce. The legislative and regulatory processes have many stages; however, changes to the CGC's operations could begin as soon as January 2013. This could impact actual financial resource requirements for quarter 4 of 2012-13 and result in significant variances. Changes to the CGA and the CGC's user fees will impact all program activities.

The CGC is currently assessing options to ensure appropriate funding is available to meet operational and staffing resource requirements as well as financial requirements resulting from possible Work Force Adjustment obligations.

4. Significant Changes to Operations, Personnel and Programs

There have been no significant changes in relation to operations, personnel and programs over the past quarter.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs; make it easier for Canadians and businesses to deal with their government; and, modernize and reduce the back office.

The CGC is unaffected by the savings measures as announced in Budget 2012.

Another measure referenced in Budget 2012 includes funding to support improving conditions for business investment, Budget 2012 provided $44.0 million over the next 2 years for the CGC to transition to a sustainable funding model.

Approved by:

Elwin Hermanson
Chief Commissioner
Winnipeg, Manitoba
November 5, 2012

Brian Brown
Acting Chief Financial Officer
Winnipeg, Manitoba
November 5, 2012

Statements of Budgetary Authorities (Unaudited)

For the period ended September 30, 2012

(in thousands of dollars)	*Fiscal Year 2012-13* Total available for use for the year ending March 31, 2013*	Used during the quarter ended September 30, 2012	Year-to date at quarter end	*Fiscal Year 2011-12* Total available for use for the year ending March 31, 2012*	Used during the quarter ended September 30, 2011	Year-to date at quarter end
Vote 30						
Appropriation including Ad hoc	$31,626	$ 9,367	$ 15,994	$ 35,030	$ 7,604	$ 16,894
Statutory Authorities:						
Revolving Fund Gross Expenditures	58,335	8,719	21,324	42,763	12,420	21,673
Revolving Fund Gross Revenues	(42,883)	(8,719)	(21,324)	(42,883)	(12,429)	(21,793)
Revolving Fund Net Expenditures	$ 15,452	$ 0	$ 0	($ 120)	($ 9)	($ 120)
Employee Benefit Plan	622	156	311	622	156	311
Total Statutory Authorities	16,074	156	311	502	146	191
Total Budgetary Authorities	$ 47,700	$ 9,523	$ 16,305	$ 35,532	$ 7,750	$ 17,085

** Includes only Authorities available for use and granted by Parliament at quarter-end*

Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (unaudited)

For the period ended September 30, 2012

(in thousands of dollars)	Fiscal Year 2012-13 Total available for use for the year ending March 31, 2013*	Expended during the quarter ended September 30, 2012	Year-to date at quarter end	Fiscal Year 2011-12 Total available for use for the year ending March 31, 2012*	Expended during the quarter ended September 30, 2011	Year-to date at quarter end
Expenditures:						
Personnel	$ 70,426	$ 14,746	$ 31,057	$ 60,900	$ 17,035	$ 32,561
Transportation and communication	3,714	810	1,638	3,510	1,016	1,877
Information	189	62	83	126	44	67
Professional and special services	2,333	434	1,029	1,956	345	1,046
Rentals	5,777	1,174	2,548	3,732	1,004	1,995
Repairs and Maintenance	288	176	127	675	113	361
Utilities, materials and supplies	709	133	313	615	156	329
Acquisition of machinery and equipment	1,875	706	827	1,199	465	641
Other Subsidies and payments	15	1	7	2	1	1
Total Expenditures	**$ 85,326**	**$ 18,242**	**$ 37,629**	**$ 72,715**	**$ 20,179**	**$ 38,878**
Revolving Fund Revenue (To be credited to Vote)	**(37,626)**	**(8,719)**	**(21,324)**	**(37,183)**	**(12,429)**	**(21,793)**
Total Budgetary Authorities	**$ 47,700**	**$ 9,523**	**$ 16,305**	**$ 35,532**	**$ 7,750**	**$ 17,085**

** Includes only Authorities available for use and granted by Parliament at quarter-end*

Due to rounding, totals may not add to totals shown.